

BEFORE THE
UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Priority Mail Express, Priority Mail &
First-Class Package Service Contract 6

Docket No. MC2016-21

Competitive Product Prices
Priority Mail Express, Priority Mail &
First-Class Package Service Contract 6 (MC2016-21)
Negotiated Service Agreement

Docket No. CP2016-27

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE REQUEST TO ADD
PRIORITY MAIL, PRIORITY MAIL EXPRESS & FIRST-CLASS PACKAGE SERVICE
CONTRACT 6 TO THE COMPETITIVE PRODUCT LIST

(December 4, 2015)

The Public Representative hereby provides comments pursuant to Order No. 2838.¹ In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Request to add Priority Mail Express, Priority Mail & First-Class Package Service Contract 6 to the competitive product list.² The Postal Service's Request includes a Statement of Supporting Justification, a certification of compliance with 39 U.S.C. § 3633(a), and a copy of Governor's Decision No. 11-6. The Postal Service also filed (under seal) a contract related to the proposed new product, and supporting financial data.

According to the Postal Service, Priority Mail Express, Priority Mail & First-Class Package Service Contract 6 is a competitive product "not of general applicability" within

¹ PRC Order No. 2838, Notice and Order Concerning the Addition of Priority Mail Express Priority Mail & First-Class Package Service Contract 6 to the Competitive Product List, November 9, 2015.

² Request of the United States Postal Service to Add Priority Mail Express, Priority Mail & First- Class Package Service Contract 6 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, November 24, 2015 (Request).

the meaning of 39 U.S.C. § 3632(b)(3). *Request* at 1. The Postal Service also maintains that the prices and classification underlying the instant contract are supported by Governors' Decision No. 11-6.³ The Postal Service further asserts that the Statement of Supporting Justification provides support for adding Priority Mail Express, Priority Mail & First-Class Package Service Contract 6 to the competitive product list and the compliance of the contract with 39 U.S.C. § 3633(a). *Attachment A* at 1.

The contract's effective date will be set two (2) business days following the date on which the Commission issues all necessary regulatory approval. *Attachment B* at 5. The contract is to expire three (3) years from the effective date, unless 1) terminated by either Party within 30 days' notice with applicable restrictions, (2) renewed by mutual agreement in writing, (3) superseded by a subsequent Agreement between the Parties, (4) ordered by the Commission or a court, or (5) required to comply with subsequently enacted legislation.⁴ *Id.* at 6.

COMMENTS

The Public Representative has reviewed the Postal Service's Request, the Statement of Supporting Justification, as well as the instant contract and the financial data filed under seal with the Postal Service's Request. Based upon that review, the Public Representative concludes that Priority Mail Express, Priority Mail & First-Class Package Service Contract 6 should be classified as a competitive product and added to the competitive product list. In addition, it appears that Priority Mail Express, Priority Mail & First-Class Package Service Contract 6 should generate sufficient revenues to cover costs during the first year and thereby satisfy 39 U.S.C. § 3633(a).

Product List Assignment. Pursuant to 39 U.S.C. § 3642, the Postal Service requests that Priority Mail Express, Priority Mail & First-Class Package Service Contract 6 be added to the competitive product list. 39 U.S.C. § 3642 requires the Commission

³ Decision of the Governors of the United States Postal Service on Establishment of Domestic Competitive Agreements, Outbound International Competitive Agreements, Inbound International Competitive Agreements, and Other Non-Published Competitive Rates, March 22, 2011 (Governors' Decision No. 11-6).

⁴ At the conclusion of this Contract term both Parties agree if preparation of a successor contract is active, the Contract will be extended for up to two (2) ninety (90) day periods with official notification to the Commission within at least seven (7) days of the Contract expiring. (*Attachment B* at 6)

to consider whether “the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products.” 39 U.S.C. § 3642(b)(1). Products over which the Postal Service exercises such power are categorized as market dominant while all others are categorized as competitive.

The Postal Service makes a number of assertions that address the considerations of section 3642(b)(1). Request, Attachment D, at 2. Based upon these assertions, the Public Representative concludes that the Postal Service’s Request to add Priority Mail Express, Priority Mail & First-Class Package Service Contract 6 to the competitive product list is appropriate.

Requirements of 39 U.S.C. § 3633. Pursuant to 39 U.S.C. § 3633(a), the Postal Service’s competitive prices must not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and, ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service.

Based upon a review of the financial data, the negotiated prices for Priority Mail Express, Priority Mail & First-Class Package Service Contract 6 should generate sufficient revenues to cover costs during the first year of the contract and therefore meet the requirements of 39 U.S.C. § 3633(a). However, although as noted above, the contract is expected to remain in effect for a period of three years, the Postal Service provides no data to demonstrate the contract’s compliance with the requirements of 39 U.S.C. § 3633(a) during the second and third years of the contract.

Based on a review of the contract terms that include an annual adjustment of negotiated rates in years 2 and 3 and the cost coverage of Priority Mail Express, Priority Mail & First-Class Package Service Contract 6 in the first year of the contract period, the Public Representative concludes that the risk that revenues will fail to cover costs

during years 2 and 3 is minimal.⁵ The Commission also has an opportunity to conduct an annual compliance review of this product in its Annual Compliance Determination.

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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⁵ See Appendix B of Request of the United States Postal Service to Add Priority Mail Express & Priority Mail Contract 21 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data. November 6, 2015. Page 5.